

Guide on statistical treatment of EPC & ESCO access to finance

Bucharest, 6th June

2nd National Roundtable

Financing Energy Efficiency in Romania

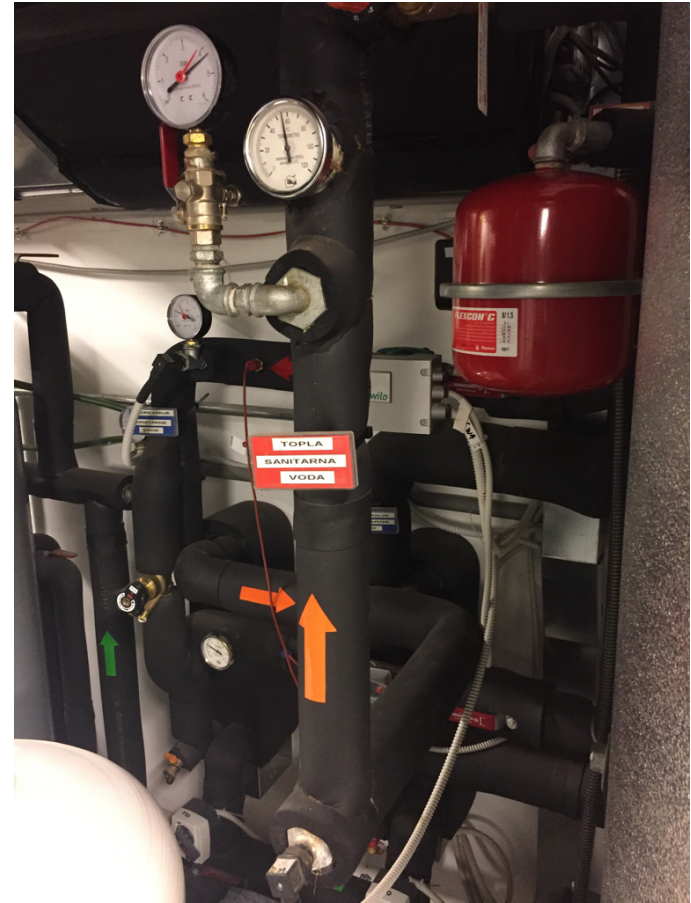
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Traditional procurement



EPC procurement



EPC market in Europe

Obstacles and Potential

Potential of EPC market in the public sector is not exploited due to:

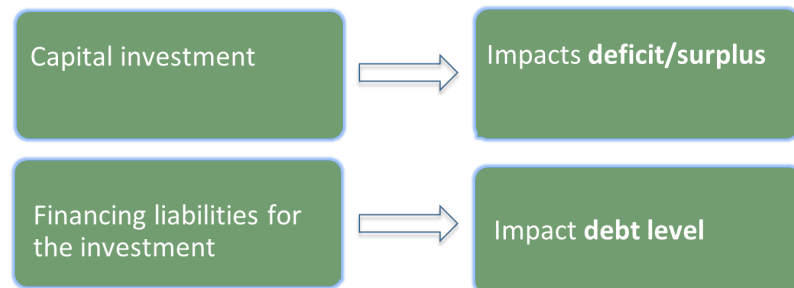
- Lack of information and awareness
- Lack of trust and track record
- Project development capacity of project promoters
- Procurement process
- Statistical treatment of EPC
- Access to finance for EPC providers
- Competition with investment grants

Guide on the statistical treatment of EPC in government accounts

What does the Eurostat guide imply?

Challenges and opportunities

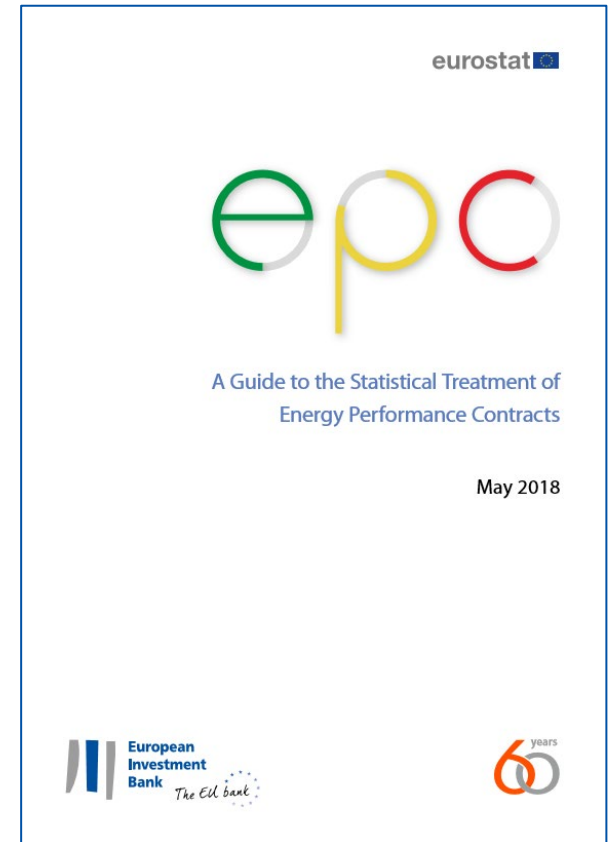
- ▶ If an asset is **“on balance sheet”** for government:



- ▶ If an asset is **“off balance sheet”** or **“Maastricht neutral”**, government only records any regular payments for services over the long-term
- ▶ **Challenges:**
 - ❖ Government **makes regular payments to the ESCO only if the energy savings are achieved**, otherwise proportional cut of payments
 - ❖ **Energy savings must exceed total amount of payment** of government to ESCO
 - ❖ ESCO provides the technical and **financing solution** to the public body
 - ❖ Minimum contract duration is **8 years**
- ▶ **Opportunities:**
 - ❑ **EU funds are neutral** in accounting treatment
 - ❑ Revenues from **renewable energy generation** are considered energy savings

Application of EPC guide

- Translates general statistical rules and principles of “economic ownership” into **contractual terms and concepts**
- Endorsed as **official Eurostat guidance** and the reference point for Eurostat advice and decisions on EPCs
- Eurostat rules relate to **statistical treatment in government accounts** - not with accounting rules/practices and budgeting
- Does not address **value for money** or **bankability** considerations



Implementation of EPC guide

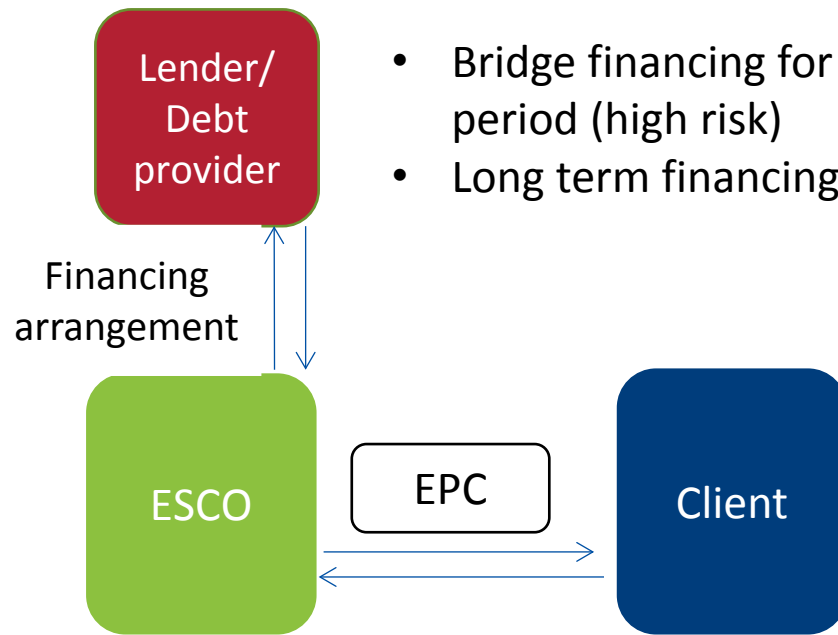
One year after

- ▶ “**Maastricht neutral**” model contracts approved by Eurostat for: Slovakia, Slovenia*
- ▶ “**Maastricht neutral**” model contracts in preparation or consulted with national statistical offices: Austria, Czech Republic, Ireland, Lithuania, Poland*, Spain, UK (Scotland),
- ▶ Other accounting/budgetary barriers:
 - ▶ Budgetary rules do not allow central government bodies to sign “Maastricht neutral EPC”
 - ▶ Public authorities are not allowed to sign long-term service contracts
 - ▶ Transfer of legal ownership

* *Model contracts in Slovenia and Poland are **PPP** in the definition of national legislation and Eurostat rules. This is possible if the building is considered a **new asset** after renovation. (New investments must represent >50% of total value of asset)*

Financing EPC

ESCO financed EPC: The financial challenges



- Bridge financing for the construction and ramp-up period (high risk)
- Long term financing during contract period (low risk)

- Combining financing and technical solution
- ESCO has limited borrowing capacity due to equity/debt ratio

Challenge of financing “Maastricht neutral” EPCs

- More risk shifted to private sector
- Contract duration longer than 8 years
- Performance based EPC fees
- Limits to using government financing or guarantees

Possible solutions

- Standardised templates
- Best practises
- ESIF financial instruments, e.g. guarantees or forfeiting

Comprehensive renovation via EPC – combining ESIF grants and financial instruments

- Comprehensive renovation has repayment time of +20 years
- To make project EPC-able partial client funding is necessary
- ESIF as capital grant to shorten repayment time
 - Client applies for grant and after approval tenders ESCO
 - Client is beneficiary of grant and pays ESCO a capital grant - *like in standards works contracts*
- ESIF financial instrument to provide affordable financing
 - ESCO secures affordable financing through an ESIF financial instrument, e.g. guarantee or forfaiting
 - State aid rules require that benefit is passed on to Client

EIB support to implement EPC projects

EIB support to EPC market

Lending – Blending - Advising

Awareness raising on the benefits of EPC and its financing

- Awareness sessions on Eurostat rules
- Information on combination of EU grants and EPC

<https://www.fi-compass.eu/news/2019/02/firece-project-fi-compass-support-energy-efficiency-and-renewable-energy-financial>

Technical support for EPC projects

- Support for preparing model contracts (but no legal advice)
- Market demand analysis
- Technical assistance through **ELENA** facility

Sustainable financing of EPC projects

- Dedicated financial instrument or investment platforms using resources from Structural Funds and EFSI

EIB support to EPC market

Examples of EIB advisory support

- Review of the Slovak **EPC model contract** regarding balance sheet treatment
- **Financial analysis** of street lighting project in Vilnius supported under URBIS
- **Smart city** and Smart islands study including **EPC** in Croatia
- Support in the **design and implementation of EPC financial instrument** with ESIF support in Slovenia
- **Developing an Investment Platform for EPC** financing with ESIF support in Czech Republic

European Investment Advisory Hub (EIAH)

The Hub: Europe's gateway to investment support

Our aim is to strengthen Europe's investment environment and improve the quality of investment projects

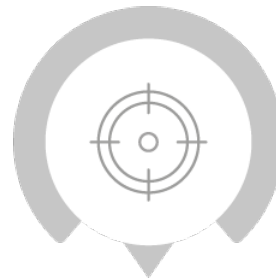
A **single access point** to a comprehensive offer of advisory and technical assistance services



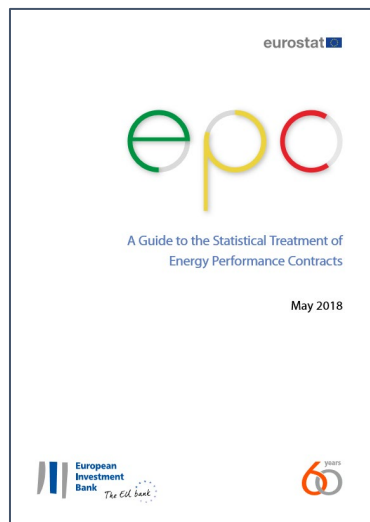
A **cooperation platform** to leverage and exchange expertise from EIAH partners



An instrument to assess and **address** unmet **needs** for advisory support



Thank you for your attention



<http://www.eib.org/infocentre/publications/all/guide-to-statistical-treatment-of-epc.htm>

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ANNEX I:

An illustrative project example

An illustrative example

Energy efficiency measures



- Building envelope insulation
- Window replacement
- Fuel switch to wood pellets
- Heating substations
- Thermostatic valves
- Heat pumps
- New cooling system
- Indoor lighting upgrade

Key figures



Total investment cost
EUR 5 million



Grant
EUR 1.5 million



Guaranteed energy savings
40% compared to baseline



Annual energy cost savings
EUR 400,000



Annual payments
EUR 320,000



Contract duration
10 years

Total payments > savings ⇒ EPC is **on-balance sheet** for the government sector

Hypothetical example: Hospital

Test against Eurostat guide

- ▶ Measures: measures are related to energy efficiency ✓
- ▶ Contract length: 10 years ✓
- ▶ Government financing: grant 20% ✓ **High importance**
- ▶ Guaranteed savings vs payments to ESCO*:
Energy savings: $10 * \text{EUR } 400,000 = \text{EUR } 4\text{m}$
Payments: $\text{EUR } 1.5\text{m} + 10 * \text{EUR } 320,000 = \text{EUR } 4.7\text{m}$
Operational payments > savings ✗

⇒ **The asset is on-balance sheet for the government sector**

**For simplification reasons the payments and savings are not calculated at net-present value (NPV)*

Other contract provision may also influence the balance sheet treatment

ANNEX II: ELENA support example

EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



EIB support to EPC - Advising

Case: EPC programme of City of Ljubljana



- **Objective:** implement a large investment programme improving energy performance of public buildings through EPC
- Several tenders have been prepared and contracts signed for EE improvements in similar buildings and using same EE technologies
- ELENA grant budget: EUR 1.35m
- Investment amount prepared : EUR 49m

ELENA Technical Assistance support provided for:

- ✓ Set up of an internal Project Implementation Unit and grouping buildings
- ✓ Preparation of energy audits, checking the energy baseline for the selected buildings, tender documentation preparation, design of the EPC contracts, tender evaluation
- ✓ External legal and financial advice to establish the required legal basis for the EPC approach